

**ALABAMA TRUST FUND
REQUEST FOR PROPOSAL
FOR
CUSTODIAL SERVICES**

Release Date: February 27, 2009
Proposal Due Date: March 27, 2009

1. Overview.

The Alabama Trust Fund (“ATF”) was created by Amendment 450 to the Alabama Constitution and ratified in 1985. The ATF was established as an investment vehicle for the management of oil and gas capital payments generated from drilling activity in Alabama’s offshore waters. The Board of Trustees of the ATF Board (“the Board”) solicits proposals from qualified professional firms to provide custodial services to the ATF.

As of December 31, 2008, ATF assets totaled approximately \$3.2 billion. Fourteen professional managers invest the assets among the classes of core, core plus, domestic equities and global equities. Additional asset classes may be considered in the future. Securities lending is currently managed on the portfolio by the custodian. The cash flows in and out of the trust fund are described in the Investment Guidelines and Policy, Exhibit E.

The Board is also responsible for the management of the County Municipal Government Capital Improvement Trust Fund (“CMGCITF”). As of December 31, 2008, the balance in this fund was approximately \$260 million and is invested by one fixed income manager. The selected custodian will also serve this fund.

This Request for Proposals (“RFP”) is issued in accordance with the requirements of Section 41-16-72(4), Code of Alabama (1975). This RFP is not an offer to contract but seeks the submission of proposals from qualified, professional firms that may form the basis for negotiation of a contract or agreement.

2. RFP Objectives.

While specific requirements are provided within the respective service sections of this document, the Board’s overall objectives for this RFP are to:

1. Select a firm which offers efficient and effective services, and product solutions that will support the Board’s current and future custodial needs.
2. Establish optimal pricing for the custodial services defined within this RFP.
3. Utilize custodial services which will improve efficiency, effectiveness, security and enhance control.

3. Minimum Qualifications.

Include Exhibit D in the proposal as documented proof that the minimum qualifications listed below are met. The vendor has a continuing obligation to disclose information throughout the RFP process should any qualifications or situations change that might render the vendor as an unqualified candidate.

- (a) The Custodian will be qualified on the first day in which the company begins functioning as “custodian” with the Secretary of State to conduct business in the

State of Alabama, if selected. For more information, visit the Secretary of State website at www.sos.state.al.us and click Business Services/Corporations.

- (b) The Custodian has been providing custodial services for at least 5 years.
- (c) The Custodian currently provides custodial services for accounts with total assets having a market value of at least \$1 billion, including all asset classes.
- (d) The account manager proposed for this account has a minimum of three (3) years experience administering custodial accounts of similar size as the ATF.
- (e) The Custodian and its personnel have all authorizations, permits, licenses, and certifications as may be required under Federal, State or local law to perform the services specified in this RFP at the time it submits the response.
- (f) The Custodian has in force errors and omissions insurance or a comparable instrument to cover negligent acts or omissions.
- (g) The Custodian maintains sufficient procedures and redundancy capabilities to assure continued processing in an emergency.
- (h) The Custodian has a company policy and practice of equal employment opportunity and non-discrimination based on race, creed or gender.
- (i) The Custodian attests that all workers providing the services described in this RFP are either citizens of the United States or are in proper and legal immigration status that authorizes them to be employed for pay within the United States, if working in the United States.
- (j) The Custodian is committed to work closely and cooperatively with the Board to facilitate the implementation of any enhancements or modifications required by the Board.

4. Proposal Required Information.

Responses to this RFP must include: (1) a brief transmittal letter; (2) Exhibit A, Qualifications and Experience; (3) Exhibit B, Services; (4) Exhibit C, Statement of Charges; (5) Exhibit D, Minimum Qualifications; and (6) Disclosure Statement. All proposals submitted in response to this RFP must include one original Disclosure Statement as required by Section 41-16-82, et seq., Code of Alabama (1975). Copies of the Disclosure Statement, and information, may be downloaded from the State of Alabama Attorney General's web site at www.ago.alabama.gov/publications.cfm.

5. Submission of Proposals.

Issuing Office. The State Treasurer serves as Secretary to the Board, and in this capacity will be issuing the RFP on behalf of the Board.

Office of State Treasurer Kay Ivey
Alabama State Capitol
600 Dexter Avenue, Suite S106
Montgomery, Alabama 36104

Phone: 334-242-7500

Submission Deadline. It is the responsibility of the vendor to ensure that its proposal is timely delivered and received in the Treasurer's Office on or before 5:00 p.m. on March 27, 2009. Provide one original proposal response plus four additional copies to facilitate the response evaluation process. Email an electronic copy of the response to alatreas@treasury.alabama.gov for retention purposes.

The Board will not consider proposals received after the date and time specified herein. The Board assumes no responsibility for late delivery by the U.S. Mail, the State's Central Mail Facility, a commercial courier service, or any other method of delivery selected by the respondent. The response may be emailed by the submission deadline with the paper documents delivered within two business days.

Questions and Inquiries. The sole point of contact for purposes of this RFP is Helen Mitchell. Any questions or inquiries should be emailed to helen.mitchell@treasury.alabama.gov, by March 20, 2009 in order to assure a timely response. Any oral communications shall be considered unofficial and nonbinding on the State. Written responses to written comments shall be posted on the Treasurer's website.

Rejection of all Proposals. The Board reserves the right to reject any or all proposals and/or to solicit additional proposals if that is determined to be fiscally advantageous to the ATF or otherwise in its best interests.

6. Evaluation and Selection.

After the review and evaluation of the proposals, the Board or Board Committee may conduct interviews. Finalists chosen for interviews will be notified. The Board will select the Custodian the Board determines, in its sole discretion, to be fully qualified and best suited among those submitting proposals to meet the needs of ATF in a cost effective manner.

The RFP shall be posted on the State Treasurer's website www.treasury.alabama.gov. Interested parties may monitor the progress and status of this RFP process on the website.

7. Agreement.

All duties of the Custodian shall be set forth in a contract agreement between the vendor and the Board. Constraints set by the Legislative Contract Review Committee determine that the contract be a three-year term, and may include a two-year extension. The contract will incorporate reference to the requirements of the RFP and the vendor's proposal as negotiated.

State law prohibits the Board from agreeing to (1) indemnify the firm; (2) waive the right for jury trial; (3) grant a security interest; or (4) binding arbitration. Additionally, it is mandatory that Alabama laws apply to the performance of the contract and that jurisdiction and venue be in Montgomery, Alabama for State and Federal courts.

8. Method of Payment.

The Custodian shall be entitled to receive quarterly compensation, in arrears. See Exhibit C, Statement of Charges, for additional information.

9. Efforts to Influence Selection Process Prohibited

The integrity of the RFP process is of primary importance and will not be compromised. Any written or oral communications beyond the RFP response made by responders, or others on their behalf, whether paid or unpaid, to influence the selection process, from the time the RFP is issued through its conclusion, made directly or indirectly to Board members or their staff will be grounds for immediate elimination from the selection process.

10. Public Information.

All responses received will be subject to the Alabama Open Records Act, §36-12-40, Code of Alabama and may be subject to public disclosure upon request. The Open Records Act is remedial and should therefore be liberally construed in favor of the public. The Alabama Trade

Secrets Act is §8-27-1 through §8-27-6, Code of Alabama. Responders are cautioned to be familiar with these statutes. The burden is on the one asserting the trade secret to show that the information sought to be protected meets the definition of a Trade Secret as defined in the Act.

Any RFP response submitted that contains confidential, trade secrets or proprietary commercial information must be conspicuously marked on the outside as containing confidential information, and each page upon which confidential information appears must be conspicuously marked as such. Identification of the entire bid proposal as confidential is not acceptable unless the Firm enumerates the specific grounds or applicable laws, which support treatment of the entire material as, protected from disclosure according to the foregoing statutes or other applicable Alabama law.

The owner of the confidential information shall indemnify and hold the State of Alabama, the ATF Board, and staff harmless from all costs or expenses, including but not limited to attorney fees and expenses related to litigation concerning disclosure of said information and documents.

Exhibit A

Qualifications and Experience

Part I. Organization

- A. Provide an overview of your firm, including corporate profile, firm experience, quality control procedures, ownership structure, financial condition, and overall business objectives.
- B. Provide a listing of all vendors or subcontractors your firm will partner with to provide services to the ATF.
- C. Provide a listing of all “related” or “affiliated” firms.
- D. Provide details of any claims, disputes, litigations, SEC or State regulatory actions, or other legal proceedings relating to your firm or individual personnel in the three preceding years.
- E. Provide details of any claims, disputes, litigations or other legal proceedings where your firm is involved with the State of Alabama or any of its agencies, or has been involved, in the three preceding years.
- F. Provide details of all SEC fidelity bonds, errors and omissions coverage, and any other fiduciary insurance, which your firm carries. Will the State of Alabama be named as an additional named insured on any of these policies?
- G. Describe your external audit processes of your custodian system. Has the firm ever received a qualified opinion? If so, please provide detail.
- H. Provide a copy of your latest audit and SAS 70.

Part II. Personnel

- A. Provide biographies of the person/persons/or team members who will be assigned to this account.

Part III. Account Management

- A. Provide a breakdown of Custodial Separate Accounts as of December 31, 2008.

Size of Account	Domestic Assets \$	Domestic Accounts #	International Assets \$	International Accounts #
Under \$500 million				
\$500 million - \$2 billion				
\$2 billion - \$3 billion				
Over -\$3 billion				

- B. Provide the following information on at least five clients (including contact persons for whom similar services as described in this RFP are provided):
 - a. Company
 - b. Address
 - c. Contact
 - d. Telephone Number
 - e. Length of Relationship in Year
 - f. Services Provided

Exhibit B Services

A summary of the current portfolio is attached in Exhibit G for your reference in pricing and reporting services.

Part I. Reporting/Pricing/Online System

- A. Provide a brief description of your reporting system, including a sample listing of standard reports. Does the system allow the user to create reports? Attach a sample of the monthly trade date statement.
- B. Describe your composite and individual manager reports.
- C. Is there an audit process prior to monthly reports being released? When are reports made available following the end of the month? Is this timeframe negotiable?
- D. Governmental Accounting Standards Board (“GASB”) requires annual disclosure of credit, interest rate and foreign currency risks at fiscal year end. To comply with this requirement, a report should be provided to include all securities with their corresponding credit ratings, maturity dates and foreign currency risks. Is this considered special reporting?
- E. To what extent will your accounting and reporting be customized to meet the individual client’s needs and/or any regulatory authority? An example of a monthly-customized report required by ATF is included in Exhibit F.
- F. A monthly statement electronically or hard copy is to be provided to the ATF consultant no later than the 10th business day of the month.
- G. Describe the monthly process for pricing and rating securities, including thinly traded or illiquid securities. What pricing services do you use, and in what order? If no price is available, what price is included on the report? What assurances does ATF receive that the pricing and rating are reasonable?
- H. Describe the online system and its capabilities to the ATF user.
- I. Describe the online system and its capabilities to the investment manager.

Part II. Cash Management

- A. Describe your policies for the collection of past due income.
- B. Summarize the products available for the investment of cash balances that meet the following guidelines: a commingled short-term investment fund managed by the custodian consistent with OCC Reg 9 and/or SEC Rule 2a-7, securities issued by the U.S. Government and its agencies, certificates of deposits, repurchase agreements, and commercial paper rate A-1 by Standard & Poor’s and P-1 Moody’s (or equivalent).
- C. Do you transact repurchase agreements for the short-term investment of cash? If so, describe.
- D. Monthly income is not available for reinvestment by the ATF managers. Describe the process for wire transferring the income monthly and the timeframe that income can be transferred.

Part III. Safekeeping and Securities Delivery

- A. Describe the relationship and communication between the custodian and investment managers.
- B. Explain how securities are held in safekeeping, including separation from other accounts, and the benefits of trust versus custody.
- C. Describe your securities settlement and clearance procedures. Include an in-depth explanation of your relationship with DTC, PTC, FBE and any other depositories and your participation in their services and processes.

- D. Describe the frequency of fails during the past year. What were the causes for the fails?
- E. Explain procedures for delayed and failed trades. Is any compensation provided?

Part IV. International/Global Custody

- A. Describe your expertise in global custody services.
- B. For each country that you provide custody services, list your custodial agent bank and the year that the current relationship was initiated.
- C. Do you subcontract global custody to another provider? Please describe your selection criteria. How many countries do you provide a sub custody network?
- D. Do you use central depository facilities outside of the U.S.? Explain the process with international clearing.
- E. Describe your tax reclaim process.

Part V. Securities Lending

- A. List the number of accounts involved in your securities lending program, size and makeup of your portfolio.
- B. Describe your policies, procedures and internal controls related to your securities lending program.
- C. Describe any indemnification you offer. Have you ever experienced a default in your securities lending program? If so, describe.
- D. Have you incurred any losses since the inception of your securities lending program (i.e. operational negligence, broker default, collateral reinvestment, etc.)?
- E. Describe your method of loan allocation among participating accounts.
- F. Describe your process to review borrowers' credentials.
- G. What communication policy is provided with the client to inform of downgrade of securities, illiquid collateral flows, and similar instances?

Part VI. Miscellaneous

- A. Upon receipt of new custody account assets, what is the expected timeframe for the transition to be complete and balanced? Describe the process for receiving new custody assets.
- B. Do you provide transition management services to transition assets between managers? If so, describe.
- C. Do you provide delivery repo versus payment and tri-party agreements in your domestic collateral management program? Briefly describe, including pricing.
- D. Describe any other services that you provide that may be of interest to ATF. Include pricing.

EXHIBIT C

STATEMENT OF CHARGES

All charges must be included and the final quote must be initially submitted. Any charge for services not addressed in the Statement of Charges in your proposal will not be allowed during the course of the contract.

A. Option I : Custody Charge (All inclusive Fee):

Currently, the ATF receives an all inclusive fee for custody service. Please provide a quote in this manner.

Account Type	Annual Fee	Quarterly Fee
All inclusive fee for the entire ATF portfolio		

B. Option II: Alternative Method of Custody Charge:

Provide a detail listing on an alternative method of charges.

C. Securities Lending:

(a) Provide the Securities Lending Income Split: _____% _____%
ATF Custodian

(b) Provide the method of computation for the rebate percentages returned to the borrowers of the ATF securities.

EXHIBIT D
MINIMUM QUALIFICATIONS

- A. My company will be qualified on the first day in which my company begins functioning as “custodian” with the Secretary of State to conduct business in the State of Alabama, if selected.

Yes No

- B. My company has been providing custodial services for at least five (5) years.

Yes No

- C. My company currently provides custodial services for accounts with total assets having a market value of at least \$1 billion and in all asset classes.

Yes No

- D. The account manager proposed for this account has a minimum of three (3) years experience administering custodial accounts of similar size as the ATF.

Yes No

- E. My company and its personnel have all authorizations, permits, licenses, and certifications as may be required under Federal, State or local law to perform the services specified in this RFP at the time it submits a response to the RFP.

Yes No

- F. My company carries errors and omissions insurance or a comparable instrument to cover the firm’s negligent acts or omissions.

Yes No

- G. My company maintains sufficient procedures and redundancy capabilities to assure continued processing in an emergency.

Yes No

- H. My company has a company policy and practice of equal employment opportunity and non-discrimination based on race, creed or gender.

Yes No

- I. My company is committed to working closely and cooperatively with the Board to facilitate the implementation of any enhancements or modifications required by the Board.

Yes No

- J. My company attests that all workers providing the services described in this RFP are either citizens of the United States or are in proper and legal immigration status that authorizes them to be employed for pay within the United States, if working in the United States.

Yes No

By signing this Exhibit, I certify that I am authorized to bind the company, and that the foregoing information is correct and true.

Signature _____

Date_____

EXHIBIT E

Alabama Trust Fund Investment Guidelines and Policy

Section 1.

Constitutional Authority

(1) Amendment No. 450 to the Constitution of the State of Alabama of 1901 created “an irrevocable, permanent trust fund named the Alabama Trust Fund” to be funded and administered in accordance with the provisions of Amendment 450.

(2) The Board of Trustees, as created in section 3(a) of Amendment 450, is responsible for establishing investment objectives and policies and responsible for their implementation. The Board oversees investment activities, monitors investment performance, and insures the prudent control of the investment of funds for the ATF.

Section 2.

Investment

Responsibility

(1) Section 5 (b) of Amendment 450 states that “in making any investment of monies held in the ATF, the Board shall exercise the judgment and care, under the circumstances prevailing at the time of such investment, which an institutional investor of the highest standard of prudence, intelligence and financial expertise would exercise in the management and investment of large assets entrusted to it not for the purpose of speculative profit but for the permanent generation and disposition of funds, considering the probable safety of capital as well as the expected amount and frequency of income.”

Section 3.

Investment Policy

(1) Section 5 (b) of Amendment 450 states that “to the extent practicable, the Board shall keep all monies at any time held in the ATF is invested in such eligible investments as shall, in its sole and uncontrolled judgment, produce the greatest trust income over the term of such investments while preserving the trust capital”.

(2) Under Amendment 666 of the Alabama Constitution of 1901, within 30 days following the end of each fiscal year, the Board of Trustees may transfer as income up to 75% of the realized and unrealized capital gains attributable to equities.

Section 4.

Investment Objectives

(1) Short Term Objective- The current objective of the ATF is to consistently generate more than \$100 million in annual income and distributable gains.

(2) Long Term Objective- The long-term objective of the fund is two-fold. First, to preserve the real value of its cash flow, and second, to provide a means through undistributed capital gains to increase the corpus of the trust in anticipation of decreasing oil and gas royalty payments.

Section 5.

Asset Allocation

(1) The Board shall allocate trust assets in a manner that protects the trust capital while achieving its operational goals stated in this investment policy document. A growth portfolio of equities and other financial instruments should be maintained to augment fixed income investments that are needed to satisfy the stated objectives and to protect the fund from inflationary erosion.

(2) The investment portfolio shall be diversified both by asset class and within asset classes, by economic sector and industry. The purpose of diversification is to reduce the specific risk associated with any single security or class of securities.

Section 6.

Asset Range

(1) The market value of investments in various assets shall generally remain within the following ranges:

Fixed Income:	Percent of Total Fund:
Core	63% +/- 5%
High Yield	5%
Equity:	
Large Cap	19% +/- 3%
Domestic Small Cap	4%
International	9%

Section 7.

Eligible Investments

Investments allowed in the ATF are defined as those “authorized by law for the investment of any of the trust funds of either the Teachers Retirement System of Alabama or the Employees Retirement System of Alabama.”

Section 8.
Domestic Equity

All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all State and Federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

(1) Shares may be purchased in domestic stocks listed on the New York or American Stock Exchange or in over-the-counter stocks approved by the Federal Reserve System for margin. ADR's listed on the NYSE are permitted investments for managers whether or not they have a foreign or global mandate.

(2) Other forms of equity investments such as direct investments are allowed subject to State law and with prior approval of the full Board.

(3) The aggregate investment of the ATF in the equity securities of any one issuing corporation shall not exceed 1% of the outstanding capital of such corporation. External managers shall notify the Board at least annually if the manager's total position in one corporation exceeds 5% of the outstanding capital of such corporation.

(4) Portfolios are to remain fully invested. Managers' cash positions are not generally to exceed 5%. It is the responsibility of the manager to contact the Board to obtain authorization if and when it becomes clear that a cash position of more than 5% is warranted for more than 90 days.

(5) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Section 9.
International Equity
Investment Criteria

All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all State and Federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

(1) Equity holdings shall be restricted to readily marketable securities of corporations that are domiciled in countries outside the United States or generate most of their revenues outside the United States. The securities shall be actively traded on major exchanges in these countries or in the U.S. Equity holdings may include American Depositary Receipts traded on U.S. exchanges. Convertible preferred stocks may be held. Exposure to Emerging Markets securities shall be limited to 15% of the market value of the portfolio.

(2) Investments should not be made in equity securities of issuers, which do not have an available operating history of at least three years. Five years of operating history is preferred. Operating history may include past performance resulting from mergers, acquisitions, and spin-offs.

(3) Equity investments in companies with a market capitalization of less than \$100 million at the time of purchase are prohibited investments. Market Capitalization shall be defined as the number of shares outstanding multiplied by the market price per share.

(4) Not more than 5% of the total stock portfolio may be invested in the common stock of any one corporation at the time of purchase and no more than 7% in any one corporation at market. Not more than 5% of the outstanding shares of any one company may be held. No more than the lesser of (2 times the sector weight in the index and 40%) valued at market may be held in any one economic sector as defined by MSCI.

(5) Futures and options may be used as a substitute for equity securities provided that they are 100% collateralized by highly liquid securities and do not represent leveraging of the assets. Futures and options may also be used to reduce the effect of currency fluctuations on the returns to the fund.

(6) Investments in stock index futures and exchange traded funds are permitted for the purpose of equitizing cash.

(7) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Section 10.
Investment Grade
Fixed Income

All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all State and Federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

(1) All securities, at the time of purchase, must have a minimum “BAA” rating by Moody’s or BBB by Standard and Poor’s rating services for investment managers with Investment grade mandates and benchmarks.

(2) The fixed income portfolio is to be diversified so that no more than 15% is invested in one industry (does not apply to US Government and Agency securities).

(3) The Board may permit managers to purchase other securities. Such authority will be provided in writing to the manager.

(4) No more than a maximum of 5% of the total fixed income portfolio may be invested in securities of any one corporation.

(5) Unrated securities other than those issued by the US government or its Agencies may not be purchased without the prior consent of the Board. Approved exceptions are 144A Privates (non-registered debt issued by corporations) when such companies registered debt carries an investment grade rating by either Moody's or Standard & Poor's.

(6) The portfolio's average duration is not to exceed 1.5 times that of the benchmark index.

(7) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

(8) Derivative instruments, including futures contracts, option contracts and swap agreements may be used provided that they are 100% collateralized by highly liquid securities and do not represent leveraging of the assets.

(9) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Section 11.

Core Plus

Fixed Income

Investment Criteria

All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all State and Federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

(1) The portfolio must have an overall weighted average credit rating of "A" or better by Standard & Poor's and Fitch, or "A2" by Moody's rating services.

(2) All investments are to be rated at least B- by Standard and Poors, B3 by Moody's, or B- by Fitch at the time of purchase. A maximum 5% of the market value of the portfolio may be held in securities rated below CCC by Standard and Poor's and Fitch or Caal by Moody's. If issue is split rated, lower rating is applicable for guideline purposes. Securities that are not rated will be permitted if, in the judgment of the investment adviser, they are of credit quality equal or superior to the standards described above.

(3) The fixed income portfolio is to be diversified so that no more than 15% is invested in one industry (does not apply to US Government and Agency securities).

(4) The Board may permit managers to purchase other securities. Such authority will be provided in writing to the manager.

(5) No more than a maximum of 5% of the total fixed income portfolio may be invested in securities of any one corporation.

(6) Securities issued under Rule 144A (non-registered debt issued by corporations) are limited to 20% of the market value of the portfolio. Private placements securities that are not issued under Rule 144A securities are limited to 5% of the market value of the portfolio (not including pooled funds).

(7) The portfolio's average duration is not to exceed 1.5 times that of the benchmark index.

(8) Investments in high yield bonds, Non-US dollar denominated bonds, emerging markets debt, bank loans and currencies are permitted. The total allocation to these non-benchmark sectors shall not exceed 30% of the market value of the portfolio. Emerging markets issuers that are part of the Lehman Brother Aggregate Index would not count toward the 30% limit.

(9) Derivative instruments, including futures contracts, option contracts, and swap agreements may be used provided that they are 100% collateralized by highly liquid securities and do not represent leveraging of the assets.

(10) The portfolio will not invest in

- Common Stock

(11) The investment adviser will not

- Borrow money
- Pledge, hypothecate, mortgage or encumber assets;
- Loan money
- Purchase or sell real estate
- Purchase or sell commodity options

(12) The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Section 12.

Cash Investment

Criteria

To the extent that the portfolio holds cash, the cash is allowed to be invested in:

The commingled short-term investment fund managed by the custodian consistent with OCC Reg and/or SEC Rule 2a-7, securities issued by the U.S. Government and its agencies, certificate of deposit, repurchase agreements, and commercial paper rated A-1 by standard & Poor's and P-1 by Moody's (or equivalent).

Section 13.

Investment Performance

And Risk Standards:

Fixed Income

- (1) Investment managers with actively managed fixed income mandates will be expected to produce a cumulative annualized total return net of fees that exceed their designated performance benchmarks.
 - (2) All managers will be provided performance benchmarks and a statement of objectives at the time of their hiring.
 - (3) Managers will be evaluated over a complete market cycle.
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Section 14.

Investment performance

And Risk Standards:

Equities

- (1) Investment managers of equities will be expected to achieve cumulative annualized total return net of fees that exceed their designate performance benchmarks.
 - (2) All managers will be provided performance benchmarks and a statement of objective at the time of their hiring.
 - (3) Managers will be evaluated over a complete market cycle.
-

Section 15.

Prohibited Transactions

- (1) The following are prohibited transactions:

- (a) Short Sales
- (b) Margin purchases
- (c) Restricted or letter stock
- (d) Commodities
- (e) Currency trading unrelated to hedging of permitted equity or fixed income securities.

- (f) Securities of the asset manager, the custodian, their parent, or subsidiaries (other than money market funds).
- (g) Derivatives (other than collateralized mortgage obligations and CMBS).
- (h) Real estate investments other than REITS.
- (i) Oil, gas & mineral exploration investments.

(2) The Board may at any time prohibit certain investments because of concerns relating to social responsibility issues.

Section 16.

Trading and Directing Brokerage

(1) The Board reserves the right to pay outside consultants by fee, or by instructing investment managers to direct brokerage to consultants to obtain independent performance analysis or other services.

(2) The Board may direct its external investment managers to cooperate in the recapture of certain trading commissions, or to direct these trades for the purpose of obtaining appropriate 3rd party investment services.

(3) The Board may prohibit managers from benefiting directly or indirectly ATF trading commissions. All soft dollar arrangements and other forms of compensation will be disclosed.

Section 17.

Securities Lending

(1) Securities lending is permitted as an opportunity to earn additional income for the ATF. Bank custodians and third party agent lenders may be retained.

(2) The Board shall design and issue requests for proposal to hire securities lending managers following a thorough evaluation of the current and long-term needs of the trust.

(3) The Board shall review securities lending managers account activity quarterly with an annual review.

Section 18.

Investment Managers

(1) Pursuant to Amendment 666 of the Alabama Constitution of 1901, “the Secretary-Treasurer of the Retirement Systems of Alabama shall be the initial manager of 50 percent of the assets, and financial institutions

and other corporate entities with general trust powers shall be the initial manager or managers of 50 percent of the assets in the ATF.”

(2) All investment managers' assets allocation and strategies will be subject to the guidelines contained herein.

(3) Investment managers employed by the ATF will be selected through a thorough review process, which will include all or some of the following steps:

- Formulation of specific manager search criteria that established the qualifications for the manager’s role.
- Identification of qualified candidates from Board members or the manager search database maintained by the ATF’s investment consultant.
- Complete due diligence on each candidate that will include performance screening, qualitative screening, or onsite visits.
- Selection and interview of finalist candidates based on final results of the due diligence process.

(4) The Board shall review each manager on an annual basis. The evaluation shall be based on the stated investment performance and risk guidelines appropriate to that manager. In addition, the Board shall make evaluations based on other criteria such as organization and portfolio manager changes.

(5) Performance measurement for each manager will be reported to the Board on a quarterly basis and combined annually in accordance with industry standards. Investment managers may be required to meet personally with the Board to review performance or other issues.

(6) Pursuant to Amendment 666 of the Alabama Constitution of 1901 the Board of Trustees shall have the power to appoint another person or persons to manage all or any portion of the assets in the ATF upon a two-thirds vote of the Board.

Section 19.

Exceptions

Each investment manager is required to comply with the objectives and guidelines set forth in this document. The Board requires that any exceptions taken to this Investment Policy Statement be submitted in writing pending approval by the Board. The Board must explicitly authorize each exception in writing. Failure to notify the Board and obtain written authorization will result in the investment manager being liable for any corresponding loss to the ATF’s investment funds.

Pooled/Mutual Fund Exceptions

In the case of a commingled account or mutual fund, the ATF waives strict adherence to the previous investment guidelines. Notwithstanding these policies, a pooled/mutual fund’s investment

objectives, policies and restrictions, as set forth in its current prospectus and statement of additional information (as amended from time to time), shall govern the investment of the Fund's assets.

Section 20.
Cash Contributions and
Redemptions

Cash-In-Flows

Monthly Royalties: Oil and gas royalties are received monthly and deposited into the ATF. These monies are distributed, pro-rata as determined by the Board, to the investment managers. Royalties are normally received no later than the 15th of each month and transferred to the investment manager within two (2) to three (3) working days.

No royalties are distributed to the investments in August and September. These monies are withheld to fund the annual distribution on October 1 to the Alabama Capital Improvement Trust Fund ("ACITF") and the CMGCITF (Amendment 666). This amendment provides that 35% of royalties received will be distributed to the two trust funds.

Income Earned: Income earned (net income collected) from the investments is distributed to the State General Fund each month and is not available for reinvestments by the managers. On or about the 5th business day of each month, the custodian transfers income from the manager's account to the ATF.

Asset Re-Allocation: Changes in asset allocation and/or manager fund occurs from time to time. Managers will be notified by the custodian with as much advance notice as possible.

Cash-Out-Flows

Annual Royalties Distribution: Amendment 666 requires 35% of oil and gas royalties to be redistributed each year from the ATF to the CMGCITF and the ACITF. This distribution is made annually on October 1, and is funded by August and September royalties with the balance taken on a pro rata basis from manager accounts. Managers will be notified in mid-September of their share of this funding requirement.

Unrealized/Realized Capital Gains: Amendment 666 allows for the transfer of up to 75% of the realized and unrealized capital gains on equity sales of investments. The Board will determine the amount of this transfer annually in October. The custodian will provide notification to the investment managers at least five (5) business days prior to withdrawal by the ATF custodian.

Schedule F
Alabama Trust Fund Asset Categorization Report
December 31, 2008

Mgr.	Cusip	Ala. Code	Description	Maturity Date	Book Value	Market Value
876823	59333AJX0	1106	STATE AND LOCAL OBLIGATIONS	1-Apr-15	602,980.19	614,220.00
876823	924214BA6	1106	STATE AND LOCAL OBLIGATIONS	1-Dec-32	346,535.00	329,924.00
		1106 Total			949,515.19	944,144.00
876800	S99994220	1116	POOLED FUNDS AND MUTUAL FUNDS		4,360,797.71	4,360,797.71
876807	S99994220	1116	POOLED FUNDS AND MUTUAL FUNDS		863,554.90	863,554.90
		1116 Total			5,224,352.61	5,224,352.61
876823	912810FE3	1154	GOVERNMENT BONDS	15-Aug-28	2,874,606.96	3,342,414.06
876823	912810PX0	1154	GOVERNMENT BONDS	15-May-38	1,478,170.31	1,745,635.16
		1154 Total			4,352,777.27	5,088,049.22
876806	3128X4BE0	1155	GOVERNMENT AGENCIES	12-May-20	1,475,145.60	1,451,021.60
876806	313160AA1	1155	GOVERNMENT AGENCIES	19-Aug-11	618,853.00	658,750.00
		1155 Total			2,093,998.60	2,109,771.60
876823	895787AX7	1157	AUTOMOBILE LOAN RECEIVABLES	12-Apr-13	1,947,400.00	1,841,689.35
876823	46632TAA3	1157	MISCELLANEOUS ASSET BACKED	27-Jul-37	453,186.28	370,878.03
		1157 Total			2,400,586.28	2,212,567.38
876806	313586794	1159	PREFERRED STOCK		85,120.00	1,250.00
8768210	02364W105	1159	UTILITIES - TELECOMMUNICATIONS		782,650.08	570,216.00
		1159 Total			867,770.08	571,466.00

The asset categorization report should include all assets in the portfolio at the end of each month. The chart above is a sample of the information needed on the report. The assets should be categorized by Alabama Codes. A listing of the Alabama Codes will be provided to the custodian.

Schedule G
Alabama Trust Fund
Summary of Investments Held
December 31, 2008

ATF Code	ATF Description	Book Value	Market Value
1010	Cash Outside Treasury	(\$95,902,246.26)	(\$95,840,743.43)
1106	State & Local Obligations	6,145,299.47	6,054,755.75
1116	Cash Short-Term Account	93,352,617.48	93,352,617.46
1154	U.S. Treasury Securities LT	81,657,255.42	87,453,412.49
1155	U.S. Agency Securities LT	71,332,245.24	74,026,844.20
1157	Mortgage Backed Securities LT	869,209,754.17	746,948,914.48
1159	Domestic Corporate Stocks LT	295,474,088.29	234,395,754.88
1160	Domestic Corporate Bonds LT	438,127,281.60	364,914,480.63
1161	Real Estate Investments LT	3,064,359.50	2,236,616.40
1164	International Stocks LT	195,035,538.71	135,694,403.77
1166	Mutual Funds LT	60,511,541.40	48,058,636.33
1167	Derivatives	(416,028.75)	(16,907,094.60)
Total		\$2,017,591,706.27	\$1,680,388,598.36

Notes To The Report:

- 1) Cash Outside Treasury includes pending sales and receivables.
- 2) A detailed 57 page listing of the above securities is available upon request by email.
- 3) LT: Long Term